Financial performance

Power solutions performance

(Power solutions refers to the segment that was previously called Projects, read more in note 1.1 on Segment information.)

Order intake

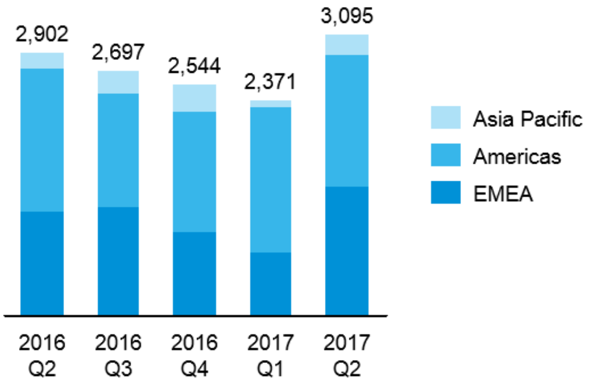
The quarterly order intake was 2,667 MW, of which 73 percent was announced. The order intake increased by 877 MW, equal to 49 percent, compared to the second quarter of 2016. Seventeen countries contributed to the order intake, with USA as the main contributor followed by Sweden, Argentina, Germany, and China.

Level of activity

Vestas had a second quarter of 2017 with a high manufacturing activity level compared to second quarter of 2016.

In the second quarter of 2017, Vestas produced and shipped wind turbines with an aggregate output of 3,095 MW (1,192 wind turbines) against 2,902 MW (1,226 wind turbines) in the second quarter of 2016.

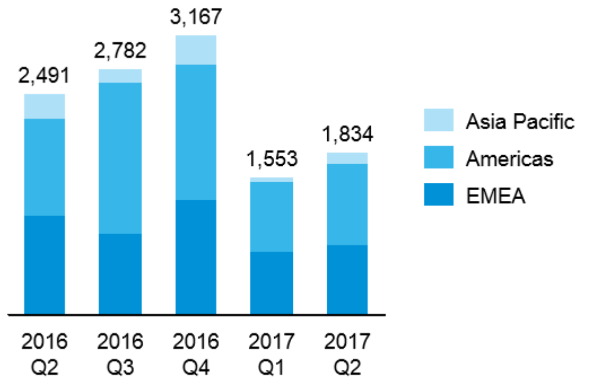
Produced and shipped
MW



Deliveries to customers amounted to 1,834 MW – a decrease of 26 percent compared to the second quarter of 2016. The decrease was driven by all regions but in particular Europe, Middle East, and Africa (EMEA).

As a result of the high manufacturing activity not fully reflected in deliveries to customers, wind turbine projects with a total output of 4,321 MW were under completion end of June 2017, compared to 2,950 MW at the end of June 2016. The amount of MW under completion is reflected in the level of inventories as a large share of these MW has not yet been recognised as revenue. Revenue is recognised either when risk has been transferred to the customer or based on stage of completion, depending on type of contract.

Deliveries (Transfer of risk)
MW

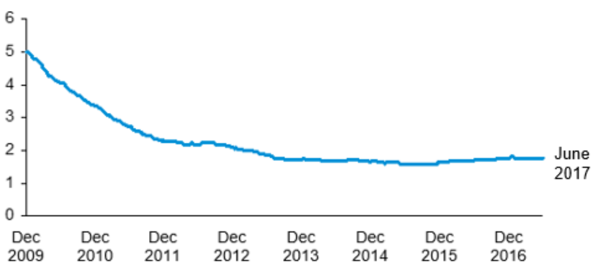


Fleet performance

By the end of June 2017, Vestas had installed 85 GW in 75 countries.

At the end of June 2017, the overall average Lost Production Factor for the wind power plants where Vestas guaranteed the performance was below 2 percent.

Lost Production Factor*
Percent



* Data calculated across approx. 22,900 Vestas wind turbines under full-scope service.

Order backlog

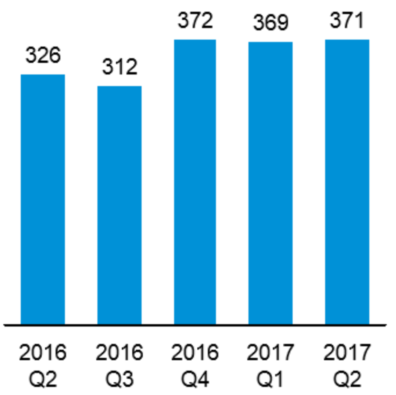
The order backlog amounted to 10,667 MW at the end of June 2017, well above the backlog level of 9,361 MW at 30 June 2016. The order backlog has developed positively due to the order intake achieved in the quarter. Europe, Middle East, and Africa (EMEA) accounted for 49 percent of the backlog, and Americas and Asia Pacific accounted for 37 and 14 percent, respectively. The value of the order backlog was EUR 9.1bn at 30 June 2017 compared to EUR 8.2bn at 30 June 2016 – an increase of 11 percent.

Service performance

Level of activity

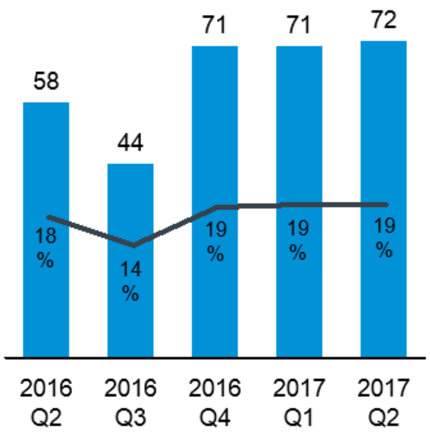
The service activity was at a higher level in the second quarter of 2017 compared to the second quarter of 2016.

Service revenue
mEUR



Service revenue amounted to EUR 371m in the second quarter of 2017 – an increase of 14 percent compared to the second quarter of 2016. The increase in service revenue continues to be driven by the increased service order backlog.

Service EBIT
mEUR and percentage



The service EBIT margin amounted to 19.4 percent – an increase of 1.6 percentage points compared to the second quarter of 2016. The improvement was driven by increasing activity and improved performance. Even though revenue and earnings from the service business are more stable than from the wind turbine business, the activities that generate revenue and earnings in the various types of service contracts may vary from quarter to quarter.

Order backlog

At the end of June 2017, Vestas had service agreements with expected contractual future revenue of EUR 11.1bn compared to EUR 9.9bn at 30 June 2016 – an increase of 12 percent. At the end of June 2017, the average duration in the service order backlog was approximately six years, unchanged compared to end of June 2016.

By the end of June 2017, Vestas had more than 38,000 wind turbines under service equivalent to approximately 71 GW.

Result for the period

Revenue

In the second quarter of 2017, revenue amounted to EUR 2,206m – a decrease of 14 percent compared to the second quarter of 2016, driven by lower revenue in the Power solutions segment. Despite the revenue shortfall in the second quarter compared to last year's very strong second quarter, revenue in the first six months increased by 2 percent compared to 2016.

Gross profit

Gross profit decreased by 22 percent to EUR 484m compared to the second quarter of 2016, corresponding to a gross margin of 21.9 percent – a 2.4 percentage point decrease relative to the gross margin of 24.3 percent in the second quarter of 2016. The decreased revenue and lower average margins in the Power solutions segment drove the decrease in gross profit only partly offset by improved performance in the Service segment.

It should be emphasised that developments in quarterly gross margins may show substantial fluctuations due to volume and composition relating to country, project complexity, order, and wind turbine type as well as customers' demand for delivery flexibility.

EBIT

EBIT decreased by 30 percent to EUR 279m in the second quarter of 2017 relative to the second quarter of 2016. The decrease in EBIT was driven by lower gross profit and an impairment of R&D building facilities of EUR 28m. Consequently, the EBIT margin decreased by 3.0 percentage points to 12.6 percent compared to the second quarter of 2016. Comparing the first six months, the level is unchanged at 12.0 percent between 2016 and 2017.

Income from investments in joint ventures

Income from investments in joint ventures amounted to a loss of EUR 21m compared to a loss of EUR 17m in the second quarter of 2016. This was driven by Vestas' share of loss in MHI Vestas Offshore Wind on a standalone basis, combined with elimination of proportional profit on deliveries from Group to the joint venture.

Financial items

In the second quarter of 2017, net financial items amounted to a net cost of EUR 11m compared to a net cost of EUR 10m in the second quarter of 2016.

Profit before and after tax

Profit before tax amounted to EUR 247m in the second quarter of 2017 compared to EUR 372m in the second quarter of 2016. In the second quarter of 2017, income tax expense was EUR 61m, compared to EUR 94m in the second quarter of 2016. Profit after tax amounted to EUR 186m compared to EUR 278m in the second quarter of 2016.

Working capital

Net working capital amounted to a net liability of EUR 1.2bn at the end of June 2017, which is an improvement of EUR 0.2bn compared to the level at the end of June 2016. The positive development in net working capital was primarily driven by an increase in prepayments from customers as well as higher trade payables exceeding the negative effect from inventory build-up.

Other operating assets and liabilities

Return on invested capital (ROIC)

Return on invested capital was 400.8 percent in the second quarter of 2017 from 148.2 percent in the second quarter of 2016, primarily driven by working capital elements as well as the improved operating result after tax for the last 12 months.

Capital structure and financing items

Equity

Vestas' equity amounted to EUR 3,142m at 30 June 2017 – an increase of 7 percent compared to 30 June 2016. The positive development was mainly driven by the profit for the period exceeding distribution to shareholders through the EUR 278m dividend payment and share buy-backs of approximately EUR 495m in total.

Solvency ratio

The solvency ratio increased by 0.3 percentage points to 30.8 percent compared to 30 June 2016. The solvency ratio remained within the target for the year of 30-35 percent despite dividend pay-out and share buy-back programme.

Cash flow

Net investments

Total net investments amounted to an outflow of EUR 116m in the second quarter of 2017. Net investments was EUR 20m above last year's level amounting to EUR 96m.

Free cash flow

The free cash flow amounted to negative EUR 158m for the quarter, primarily driven by inventory build-up.

New share buy-back programme

The Board of Directors of Vestas Wind Systems A/S has decided to initiate a new share buy-back programme of up to DKK 4,460m (approximately EUR 600m) to be executed during the period 17 August 2017 to 29 December 2017. The new share buy-back programme will be structured according to the safe harbour regulation.

The main purpose of the share buy-back programme is to adjust the capital structure of Vestas.

Share buy-backs are intended to be used from time to time to adjust the capital structure and/or if excess cash arises. Any such decision will be taken in appropriate consideration of capital structure targets, while still maintaining adequate flexibility to invest in Vestas' strategy, Profitable Growth for Vestas.

The stated dividend policy of Vestas will be unaffected by the share buy-back programme, and hence remains at 25-30 percent of the net result of the year.